



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony to Insurance and Real Estate Committee

February 25, 2014

Raised S.B. No. 194: AN ACT CONCERNING OWN RISK AND SOLVENCY ASSESSMENTS FOR DOMESTIC INSURERS.

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department thanks the Committee for raising Senate Bill 194: An Act Concerning Own Risk and Solvency Assessments for Domestic Insurers, at the Department's request and appreciates the opportunity to provide this testimony.

This proposal is based on the model law developed by the National Association of Insurance Commissioners. In collaboration with and with the support of the insurance industry, it is the Department's objective to adopt a substantially similar version of this law both in substance and structure and join other states in having nearly identical wording of this model law as part of a national system of state-based insurance regulation.

The purpose of this Act is to provide the requirement for insurers or insurance groups to maintain a risk management framework and to complete an annual Own Risk and Solvency Assessment, known as an ORSA. This Act will provide guidance and instructions to insurers or insurance groups relating to filing an ORSA Summary Report with the Insurance Commissioner. We anticipate that the NAIC will require insurance departments to have the ORSA law adopted and effective in their respective states no later than January 2018 to meet NAIC accreditation requirements, but we are seeking to have it effective commencing in January 2015 to enable both the Insurance Department and insurance industry time to fully implement the reporting process.

In recent years, this body supported the Insurance Department's proposal to enact changes to the Holding Company Act and Enterprise Risk Management Reporting which strengthened the Department's ability to safeguard the financial security of domestic insurers. ORSA will further improve the insurance regulatory system by requiring insurers and insurance groups to conduct enterprise risk management assessments in a more structured environment and then communicate and discuss with their insurance regulators relating to how to manage or minimize the identified risks.

Among the significant aspects of the proposal are:

- The requirements for an insurer or insurance group to maintain a risk management framework to assist the insurer or insurance group with identifying, assessing, monitoring, managing and reporting on its material and relevant risks.

- The requirement to conduct an ORSA Report annually and what the report should include.
- The requirement to use the NAIC ORSA Guidance Manual to prepare the ORSA Summary Report.
- Exemption criteria from ORSA for smaller companies where ORSA may create more of a regulatory burden than benefit.
- The need to keep the ORSA Report confidential. The ORSA Summary Report will contain confidential and sensitive information related to an insurer or insurance group's identification of risks material and relevant to the insurer or insurance group filing the report. This information will include proprietary and trade secret information that has the potential for harm and competitive disadvantage to the insurer or insurance group if the information is made public. The ORSA Summary Report is solely designed to assist the Commissioner in the performance of his duty as a regulator and that in no event shall the ORSA Summary Report be subject to public disclosure.

The Department has worked collaboratively with the domestic insurers on this legislative proposal and are pleased this bill has garnered their support. The Department appreciates the opportunity to submit testimony on S.B. 194 and respectfully urges its passage. Thank you.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.